



HAMILTON COMMUNITY SCHOOLS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

HAMILTON COMMUNITY SCHOOLS

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**HAMILTON COMMUNITY SCHOOLS
ADMINISTRATIVE PERSONNEL
FOR THE YEAR ENDED JUNE 30, 2006**

SCHOOL BOARD MEMBERS

JoAnn DeJonge	President
Ron Eding	Vice-President
Beth Kleinheksel	Secretary
Gord Poll	Treasurer
Rick Kooiker	Trustee
Ralph Pax	Trustee
Beth Zoet	Trustee

SUPERINTENDENT

James Kos

BUSINESS MANAGER

Steve Aardema

PRINCIPALS

Douglas Braschler	High School
Scott Smith	Middle School
Barb Ferguson	Elementary School
Duane Langeland	Elementary School
Rolfe Timmerman	Elementary School
Jim Zeedyk	Elementary School



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INDEPENDENT AUDITORS' REPORT

July 28, 2006

Board of Education
Hamilton Community Schools
Hamilton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **HAMILTON COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hamilton Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hamilton Community Schools as of June 30, 2006, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated July 28, 2006, on our consideration of Hamilton Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hamilton Community Schools' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of Hamilton Community Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Hamilton Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$18,741,410 (*net assets*). Of this amount, \$8,141,945 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets increased by \$1,301,356.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$10,941,238, a decrease of \$7,530 in comparison with the prior year.
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$6,827,691 or 33% percent of total general fund expenditures and transfers out.
- Investments for the future were made by spending \$503,908 on school improvements, vehicles and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including management discussion and analysis, budgetary schedules, and combining statements for non-major and fiduciary funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services, athletics and other services. The District has no business-type activities as of and for the year ended June 30, 2006.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains seven individual governmental funds, one trust fund, and two agency funds reported in combination in these financial statements. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and public improvement fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. These funds include two capital projects funds, a food service special revenue fund and an athletics special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general, debt, and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with the general and special revenue fund budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Hamilton Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 17-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-30 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 31-44 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$18,741,410 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

A portion of the District's net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). In the current year, this amount is \$8,141,945 or 43% of total net assets. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Hamilton Community Schools' Net Assets

	<u>2005</u>	<u>2006</u>
Current and other assets	\$13,380,130	\$13,189,922
Capital assets, net	<u>40,141,912</u>	<u>39,307,402</u>
Total assets	<u>53,522,042</u>	<u>52,497,324</u>
Current liabilities	4,506,099	3,704,010
Long-term liabilities outstanding	<u>31,575,889</u>	<u>30,051,904</u>
Total liabilities	<u>36,081,988</u>	<u>33,755,914</u>
Net assets:		
Invested in capital assets, net of related debt	7,206,912	8,515,220
Restricted	1,811,023	2,084,245
Unrestricted	<u>8,422,119</u>	<u>8,141,945</u>
Total net assets	<u>\$17,440,054</u>	<u>\$18,741,410</u>

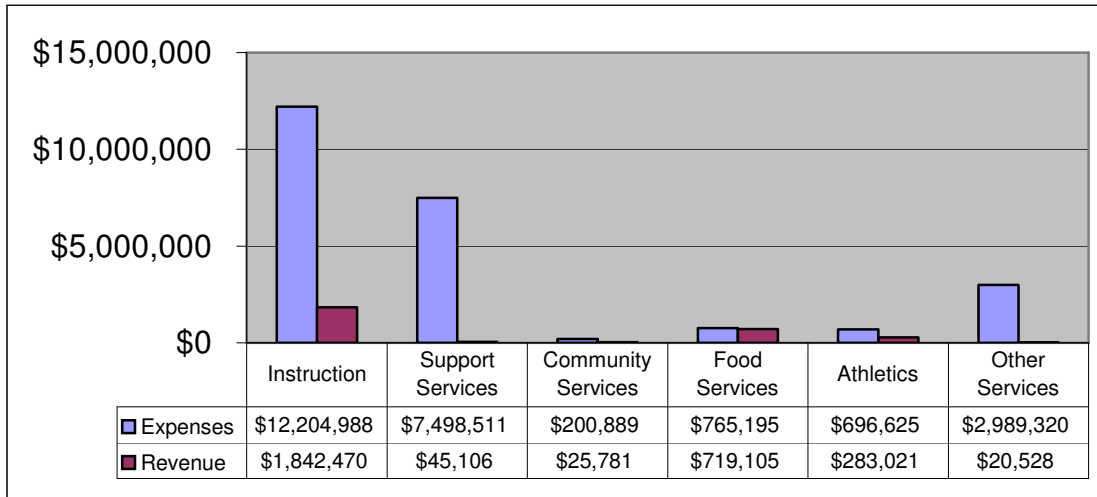
An additional portion of the District's net assets represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the District's ongoing obligations to its general programs.

Hamilton Community Schools' Changes in Net Assets

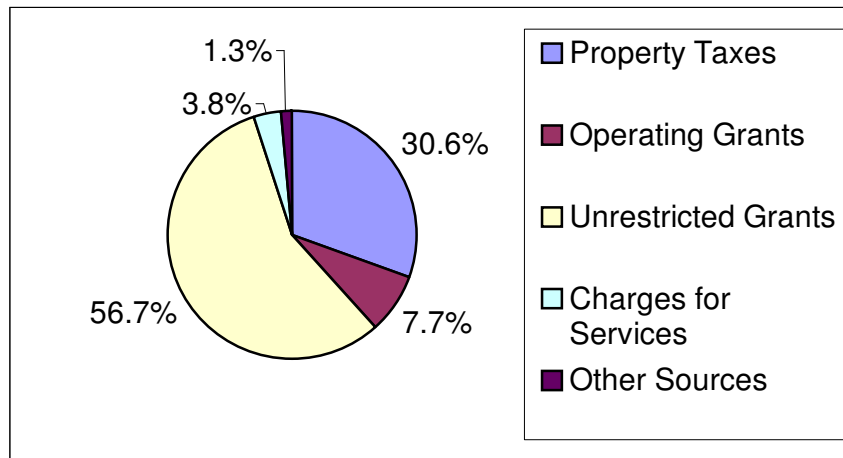
	<u>2005</u>	<u>2006</u>
Program revenue:		
Charges for services	\$ 886,771	\$ 964,419
Operating grants and contributions	2,499,623	1,971,592
General revenue:		
Property taxes - operations	3,750,048	3,798,939
Property taxes - debt service	4,159,784	4,052,157
Grants and contributions not restricted to specific programs	12,997,559	14,548,160
Decrease in fair market value of investment	(129,207)	-
Gain (loss) on sale of capital assets	(10,501)	-
Miscellaneous revenue	62,497	-
Unrestricted investment earnings	<u>417,318</u>	<u>321,617</u>
Total revenue	<u>24,633,892</u>	<u>25,656,884</u>
Expenses:		
Instruction	11,959,644	12,204,988
Supporting services	7,522,188	7,498,511
Community services	148,204	200,889
Food services	739,321	765,195
Athletics	648,579	696,625
Depreciation – unallocated	1,337,541	1,333,575
Interest on long-term debt	<u>1,425,523</u>	<u>1,655,745</u>
Total expenses	<u>23,781,000</u>	<u>24,355,528</u>
Increase in net assets	852,892	1,301,356
Net assets, beginning of year, as restated	<u>16,587,162</u>	<u>17,440,054</u>
Net assets, end of year	<u>\$17,440,054</u>	<u>\$18,741,410</u>

Governmental activities. Net assets increased by \$1,304,875. Key elements of this increase are as follows (the graph below, Expenses and Program Revenues – Government – wide, does not include general revenues of approximately \$22.7 million, which are not allocated to a specific function):

Expenses and Program Revenues – Government-wide



Revenues by Source – Government-wide



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$6,827,188, while the total fund balance was \$8,518,829. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 33 and 41 percent, respectively, of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$166,017 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with instruction and related supporting activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were caused by revenue that was adjusted throughout the year as actual enrollments replaced projections, grants were approved at new levels, and adjustments in state aid were made – particularly for prior year tax judgements. Expenditures are adjusted for changes in staffing (staffing levels, compensation based on additional education, and benefits based on changes in family status.) Other expenditures were revised based on year-to-date spending, approved grant levels, and transfers within school/departmental budgets.

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets for its governmental activities as of June 30, 2006 amounted to \$39,307,402 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets at fiscal year end included the following:

Hamilton Community Schools' Capital Assets		
(net of depreciation)		
June 30, 2006		
	<u>2005</u>	<u>2006</u>
Land	\$ 1,255,880	\$ 1,255,880
Buildings and improvements	37,201,976	36,277,419
Furniture and equipment	883,117	857,663
Vehicles	800,939	715,916
Infrastructure	<u>-</u>	<u>200,524</u>
Total	<u>\$40,141,912</u>	<u>\$39,307,402</u>

Additional information on the District's capital assets can be found in Note 6 on pages 26 and 27 of this report.

Long-term debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$31,637,069. The District's total debt decreased by \$2,228,706 during the current fiscal year. Additional information on the District's long-term debt can be found in Note 9 on pages 28 and 29 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2006-07 fiscal year:

- A flat enrollment pupil count was used as a balance between the past growth trend and the area's economic and job loss situation.
- A state foundation grant of \$7,135 per student based on a blend of state executive and legislative proposals.
- Federal revenue and expenditures projections were done on a grant-by-grant basis.
- Wage and insurance costs were budgeted to anticipate ongoing negotiations with employee groups.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager
Hamilton Community Schools
4815 - 136th Avenue
Hamilton, MI 49419
(269) 751-5148

BASIC FINANCIAL STATEMENTS

HAMILTON COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and investments	\$ 9,832,547
Receivables:	
Accounts	1,891
Interest receivable	55,365
Due from other governmental units	2,960,764
Inventories	12,219
Prepaid items	56,445
Total current assets	<u>12,919,231</u>
Noncurrent assets:	
Land	1,255,880
Capital assets, depreciable	49,392,521
Less accumulated depreciation	(11,340,999)
Unamortized bond issuance and deferred refunding costs	270,691
Total noncurrent assets	<u>39,578,093</u>
Total assets	<u>52,497,324</u>
Liabilities	
Current liabilities:	
Accounts payable	86,459
Accrued expenses	2,016,712
Unearned revenue	15,674
Current portion of long-term debt	1,585,165
Total current liabilities	<u>3,704,010</u>
Noncurrent liabilities:	
Long-term severance benefits/early retirement	844,887
Non-current portion of long-term debt	29,207,017
Total noncurrent liabilities	<u>30,051,904</u>
Total liabilities	<u>33,755,914</u>
Net assets	
Invested in capital assets, net of related debt	8,515,220
Restricted for debt service	360,902
Restricted for capital projects	1,723,343
Unrestricted	8,141,945
Total net assets	<u>\$ 18,741,410</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS

Statement of Activities For the Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue/Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 12,204,988	\$ 62,519	\$ 1,779,951	\$ (10,362,518)
Supporting services	7,498,511	37,818	7,288	(7,453,405)
Community services	200,889	25,781	-	(175,108)
Food services	765,195	555,609	163,496	(46,090)
Athletics	696,625	282,692	329	(413,604)
Depreciation - unallocated	1,333,575	-	-	(1,333,575)
Interest on long-term debt	1,655,745	-	20,528	(1,635,217)
Total governmental activities	<u>\$24,355,528</u>	<u>\$964,419</u>	<u>\$ 1,971,592</u>	<u>(21,419,517)</u>
General revenues:				
Property taxes - operations				3,798,939
Property taxes - debt service				4,052,157
Grants and contributions not restricted to specific programs				14,548,160
Unrestricted investment earnings				<u>321,617</u>
Total general revenues				<u>22,720,873</u>
Change in net assets				1,301,356
Net assets, beginning of year, as restated				<u>17,440,054</u>
Net assets, end of year				<u>\$ 18,741,410</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2006

	General	Debt Service	Public Improvement Fund	Non- Major Funds	Total
Assets					
Cash and investments	\$ 7,435,026	\$ 620,822	\$ 1,522,698	\$ 254,001	\$ 9,832,547
Accounts receivable	-	-	-	1,891	1,891
Interest receivable	35,257	3,216	15,739	1,153	55,365
Due from other funds	1,266	-	-	1,500	2,766
Due from other governmental units	2,874,443	82,182	-	4,139	2,960,764
Inventory	-	-	-	12,219	12,219
Prepaid items	53,917	-	-	2,528	56,445
Total assets	<u>\$ 10,399,909</u>	<u>\$ 706,220</u>	<u>\$ 1,538,437</u>	<u>\$ 277,431</u>	<u>\$ 12,921,997</u>
Liabilities					
Accounts payable	\$ 85,902	\$ -	\$ -	\$ 557	\$ 86,459
Accrued liabilities	1,753,576	-	-	-	1,753,576
Due to other funds	1,500	-	-	1,266	2,766
Deferred revenue	40,102	82,182	-	15,674	137,958
Total liabilities	<u>1,881,080</u>	<u>82,182</u>	<u>-</u>	<u>17,497</u>	<u>1,980,759</u>
Fund balance					
Reserved for:					
Prepaid items	53,917			2,528	56,445
Inventory	-	-	-	10,748	10,748
Capital projects	-	-	1,538,437	-	1,538,437
Unreserved					
Designated for equipment/maintenance	792,837	-	-	-	792,837
Designated for severance benefits	844,887	-	-	-	844,887
Designated for capital projects	-	-	-	184,906	184,906
Undesignated special revenue funds	-	-	-	61,752	61,752
Undesignated debt service funds	-	624,038	-	-	624,038
Undesignated general fund	6,827,188	-	-	-	6,827,188
Total fund balance	<u>8,518,829</u>	<u>624,038</u>	<u>1,538,437</u>	<u>259,934</u>	<u>10,941,238</u>
Total liabilities and fund balance	<u>\$ 10,399,909</u>	<u>\$ 706,220</u>	<u>\$ 1,538,437</u>	<u>\$ 277,431</u>	<u>\$ 12,921,997</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 10,941,238
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criteria for revenue recognition is met.

Add - deferred long-term receivables	122,284
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	50,648,401
Deduct - accumulated depreciation	(11,340,999)

Amortization of bond issuance costs, premiums, and deferred refunding costs are not recorded in the governmental funds, but are recorded as a noncurrent asset on the Statement of Net Assets.

Add - net deferred bond refunding costs	270,691
---	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(30,792,182)
Deduct - accrued interest on bonds payable	(263,136)
Deduct - severance benefits/early retirement	(844,887)

Net assets of governmental activities	<u><u>\$ 18,741,410</u></u>
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The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006

	General Fund	Debt Service	Public Improvement Fund	Non- Major Funds	Total
Revenues					
Local sources	\$ 5,261,239	\$ 4,167,165	\$ 18,228	\$ 850,767	\$ 10,297,399
State sources	14,535,303	66,446	-	32,908	14,634,657
Federal sources	687,711	-	-	161,659	849,370
	<u>20,484,253</u>	<u>4,233,611</u>	<u>18,228</u>	<u>1,045,334</u>	<u>25,781,426</u>
Expenditures					
Current:					
Instruction	12,109,794	-	-	-	12,109,794
Supporting services	7,458,941	-	-	-	7,458,941
Community services	200,889	-	-	-	200,889
Food services	-	-	-	764,513	764,513
Athletics	-	-	-	686,347	686,347
Debt service					
Principal	-	2,270,918	-	-	2,270,918
Interest	-	1,677,405	-	-	1,677,405
Taxes abated and written off	-	58,573	-	-	58,573
Capital outlay	436,764	-	-	124,287	561,051
	<u>20,206,388</u>	<u>4,007,421</u>	<u>-</u>	<u>1,575,147</u>	<u>25,788,956</u>
Revenue over (under) expenditures	<u>277,865</u>	<u>226,190</u>	<u>18,228</u>	<u>(529,813)</u>	<u>(7,530)</u>
Other financing sources (uses)					
Transfers in	-	-	-	443,882	443,882
Transfers out	(443,882)	-	-	-	(443,882)
	<u>(443,882)</u>	<u>-</u>	<u>-</u>	<u>443,882</u>	<u>-</u>
Net changes in fund balances	(166,017)	226,190	18,228	(85,931)	(7,530)
Fund balances, beginning of year	8,684,846	397,848	1,520,209	345,865	10,948,768
Fund balances, end of year	<u>\$ 8,518,829</u>	<u>\$ 624,038</u>	<u>\$ 1,538,437</u>	<u>\$ 259,934</u>	<u>\$ 10,941,238</u>

The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (7,530)
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criteria for revenue recognition is met.

Deduct - change in deferred revenue on long-term receivable	(65,969)
---	----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	503,908
Deduct - depreciation expense	(1,333,575)
Deduct - net disposals of capital assets	(4,843)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term debt	2,270,918
--	-----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	22,185
Deduct - amortization expense of net deferred refunding costs	(22,558)
Deduct - increase in the accrual for severance benefits	(61,180)

Change in net assets of governmental activities	<u><u>\$ 1,301,356</u></u>
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The accompanying notes are an integral part of these financial statements.

HAMILTON COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Budget			Variance With Final Budget	2005 Actual
	Original	Amended	Actual		
Revenues					
Local sources	\$ 5,372,500	\$ 5,281,300	\$ 5,261,239	\$ (20,061)	\$ 5,027,853
State sources	14,230,300	14,424,200	14,535,303	111,103	13,729,823
Federal sources	644,400	689,500	687,711	(1,789)	651,727
Total revenue	20,247,200	20,395,000	20,484,253	89,253	19,409,403
Expenditures					
Instructional:					
Basic programs	11,068,235	10,898,336	10,743,539	(154,797)	10,198,634
Added needs	1,677,100	1,491,800	1,366,255	(125,545)	1,493,299
Total instructional	12,745,335	12,390,136	12,109,794	(280,342)	11,691,933
Supporting services:					
Pupil services	875,000	959,100	958,745	(355)	803,433
Improvement of instruction	866,100	891,100	784,129	(106,971)	810,004
Executive administration	285,600	293,500	275,527	(17,973)	259,710
School administration	1,412,400	1,396,900	1,366,616	(30,284)	1,303,357
Other pupil services	408,400	518,600	471,006	(47,594)	324,093
Operation and maintenance	2,693,532	2,530,482	2,262,481	(268,001)	2,353,379
Transportation services	1,217,200	1,380,100	1,267,834	(112,266)	1,148,085
District support	83,100	82,400	72,603	(9,797)	49,322
Total supporting services	7,841,332	8,052,182	7,458,941	(593,241)	7,051,383
Community services:					
District pool	241,200	206,500	200,889	(5,611)	148,204
Capital outlay	701,400	592,000	436,764	(155,236)	413,676
Total expenditures	21,529,267	21,240,818	20,206,388	(1,034,430)	19,305,196
Revenue over (under) expenditures	(1,282,067)	(845,818)	277,865	1,123,683	104,207
Other financing sources (uses)					
Transfers out	(430,600)	(496,700)	(443,882)	52,818	(810,248)
Total other financing sources (uses)	(430,600)	(496,700)	(443,882)	52,818	(810,248)
Net changes in fund balance	(1,712,667)	(1,342,518)	(166,017)	1,176,501	(706,041)
Fund balance, beginning of year	8,684,846	8,684,846	8,684,846	-	9,390,887
Fund balance, end of year	\$ 6,972,179	\$ 7,342,328	\$ 8,518,829	\$ 1,176,501	\$ 8,684,846

HAMILTON COMMUNITY SCHOOLS

Fiduciary Funds Statement of Net Assets

June 30, 2006

	Private Purpose Trust Dangremond Scholarship Fund	Agency Fund Student Activities
Assets		
Cash and investments	\$ 52,347	\$ 71,404
Inventory	-	19,541
Interest receivable	84	-
Total assets	52,431	\$ 90,945
Liabilities		
Due to student groups	-	\$ 89,504
Sales tax payable	-	1,441
Total liabilities	-	\$ 90,945
Net assets		
Unrestricted	\$ 52,431	

HAMILTON COMMUNITY SCHOOLS

Fiduciary Fund Statement of Changes in Net Assets

For the Year Ended June 30, 2006

	<u>Private Purpose Trust Dangremond Scholarship Fund</u>
Additions	
Contributions	\$ 840
Investment income	<u>1,497</u>
Total additions	2,337
Deductions	
Scholarships and other payments	<u>600</u>
Change in net assets	1,737
Net assets held in trust	
Beginning of year	<u>50,694</u>
End of year	<u><u>\$ 52,431</u></u>

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Hamilton Community Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Hamilton Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the District reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to severance benefits and claims and judgments, are recorded only when payment is due.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Property taxes, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *public improvement fund* is used for earmarked revenues set aside for public improvements. Funding is provided from General Fund appropriations.

Additionally, the District reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *capital projects funds* account for the accumulation and disbursement of funds for construction projects.

The *fiduciary funds* account for resources held on the behalf of other individuals and governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants, and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Encumbrances

The District does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2005 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. The County maintains a Delinquent Tax Fund which pays local units for uncollected taxes on real property. Collections of delinquent taxes on personal property in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied on July 1 and December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Investments

The District investments consist of mutual funds and certificates of deposit with local and regional financial institutions as well as commercial paper and federal treasury/agency obligations. Investments are stated at fair value.

Michigan law authorizes the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

- c. Commercial paper rated prime at the time of purchase and maturing note more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables

The District follows the practice of recording as receivables revenues that have been earned but not yet received.

Inventories

Inventories consist of food and school store items. Inventories are stated at cost (first-in, first-out).

Prepaid Items

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-10
Vehicles	5-10

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Retirement/Severance Benefits

Most employees of the District are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for severance benefits has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Certain employees, after extended service to the District, are eligible for a retirement amount based upon years of service and the BA base salary, and, if applicable final salary. Only the amount that has matured is reflected in the fund financial statements (*modified accrual basis*). The full amount is reflected in the government-wide (*full-accrual basis*) statements.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

Durant Related Issues

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA) or in fifteen annual payments. Hamilton Community Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 71% of general fund revenue to the District during the 2006 fiscal year.

3. DEFICIT FUND BALANCE

At June 30, 2006, the District had an unreserved deficit fund balance of \$8,085 in the Food Service Fund. Management plans to eliminate the unreserved deficit fund balance through the recognition of revenues and transfers from the general fund in subsequent years.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

4. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2006 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Athletics Fund			
Salaries	\$288,230	\$291,259	\$3,029
Employee benefits	80,090	80,304	214
Food Service Fund			
Salaries	253,350	256,754	3,404

5. CASH AND INVESTMENTS

The composition of cash and investments is as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits in checking and savings accounts	\$2,653,365	\$ 53,751	\$2,760,864
Certificates of deposit	352,442	70,000	422,442
Investments	6,826,740	-	6,826,740
Total cash and cash equivalents and investments	<u>\$9,832,547</u>	<u>\$123,751</u>	<u>\$9,956,298</u>

These deposits are in six (6) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of June 30, 2006, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Fixed Income Securities:			
Federal Farm Credit Bank	01/25/2008	\$ 100,375	*
Federal Farm Credit Bank Medium Term Note	06/16/2008	100,889	*
Federal Home Loan Bank	07/15/2008	94,656	*
Federal Home Loan Bank	02/25/2008	100,406	*
Federal Home Loan Bank	05/15/2008	100,469	*
Federal Home Loan Bank	08/15/2006	96,625	*
Federal Home Loan Bank	11/14/2008	96,000	*
Federal Home Loan Mortgage Corporation	04/15/2008	100,438	*
Federal Home Loan Mortgage Corporation Security	10/15/2008	99,313	*
Federal Home Loan Mortgage Corporation Security	03/15/2008	95,625	*
Federal National Mortgage Association	01/15/2009	99,531	*
Federal National Mortgage Association	12/10/2007	100,877	

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Student Loan Marketing Association			
Medium Term Note	12/01/2008	\$101,772	*
U.S. Treasury Security	09/15/2008	95,820	*
Federal Home Loan Mortgage Corporation	09/22/2009	191,554	*
Federal Farm Credit Bank Medium Term Note	06/19/2007	101,120	*
Federal Farm Credit Bank	09/24/2007	101,163	*
Federal Home Loan Mortgage Corporation Multi-Coupon Medium Term Note	11/15/2009	68,307	*
Federal Home Loan Bank	02/26/2009	100,156	
Federal Home Loan Bank	08/15/2006	100,094	*
Federal Home Loan Bank Series QZ06	12/04/2006	99,469	*
Federal Home Loan Bank	02/15/2007	99,594	*
Federal Home Loan Bank	05/15/2007	99,438	*
Federal Home Loan Bank Series S107	08/15/2007	98,094	*
Federal Home Loan Bank	08/27/2009	96,406	*
Federal Home Loan Bank	09/29/2006	99,219	*
Federal Home Loan Bank Multi-Coupon	10/29/2009	96,438	*
Federal Home Loan Bank Multi-Coupon	11/12/2009	98,125	*
Federal Home Loan Bank	05/15/2009	96,906	*
Federal Home Loan Bank	12/22/2009	96,188	*
Federal Home Loan Mortgage Corporation	01/05/2007	100,563	*
Federal Home Loan Mortgage Corporation	03/15/2009	100,781	*
Federal Home Loan Mortgage Corporation	07/15/2006	100,000	*
Federal Home Loan Mortgage Corporation	03/15/2006	99,531	*
Federal Home Loan Mortgage Corporation	04/15/2009	94,750	*
Federal Home Loan Mortgage Corporation	07/15/2006	96,719	*
Federal National Mortgage Association	06/15/2009	102,500	*
Federal National Mortgage Association	10/15/2007	101,344	*
Federal National Mortgage Association	10/15/2006	99,719	*
Federal National Mortgage Association	07/15/2007	98,719	*
Federal National Mortgage Association	04/02/2007	101,006	*
Federal National Mortgage Association	12/09/2009	93,156	*
U.S. Treasury N/B	11/15/2006	99,363	*
U.S. Treasury	11/15/2007	97,090	*
Commercial Paper:			
Britannia Building Society	08/21/2006	98,786	A1/P1
Britannia Building Society	08/30/2006	296,713	A1/P1
Commonwealth Bank of Australia	08/21/2006	296,846	A1/P1
CIT Group Inc.	10/03/2006	293,689	A1/P1

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
J.P. Morgan	07/05/2006	\$ 98,555	A1/P1
J.P. Morgan	11/15/2006	195,865	A1/P1
Norddeutschlands Bank	09/28/2006	293,726	A1/P1
Paccar Financial	07/03/2006	98,859	A1/P1
Paccar Financial	08/31/2006	98,781	A1/P1
Queensland Treasury Corporation	07/12/2006	199,185	A1/P1
R.C Willey	07/26/2006	249,044	A1/P1
Wachovia Bank	07/24/2006	<u>196,383</u>	A1/P1
Total Investments		<u>\$ 6,826,740</u>	

* denotes that the District is not required to report a rating because the investment is backed or sponsored by the U.S. government.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of deposit	< 1 year	\$422,442

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$2,160,695 of the District's bank balance of \$2,528,441 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$6,826,740 of the District's bank balance of \$6,826,740 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in certificates of deposit. All investments held at year end are reported above.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

6. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Dispositions	Balance June 30, 2006
Governmental activities				
Nondepreciable capital assets:				
Land	\$ 1,255,880	\$ -	\$ -	\$ 1,255,880
Depreciable capital assets:				
Buildings and improvements	44,972,270	18,545	-	44,990,815
Furniture and equipment	1,926,006	149,358	(117,057)	1,958,307
Vehicles	2,107,394	127,126	-	2,234,520
Infrastructure	-	208,879	-	208,879
Total depreciable capital assets	49,005,670	503,908	(117,057)	49,392,521
Accumulated depreciation:				
Buildings and improvements	\$ (7,770,294)	\$ (943,102)	\$ -	\$ (8,713,396)
Machinery and equipment	(1,042,889)	(169,969)	112,214	(1,100,644)
Vehicles	(1,306,455)	(212,149)	-	(1,518,604)
Infrastructure	-	(8,355)	-	(8,355)
Total accumulated depreciation	(10,119,638)	(1,333,575)	112,214	(11,340,999)
Total capital assets being depreciated, net	38,886,032	(829,667)	(4,843)	38,051,522
Governmental activities capital assets, net	\$ 40,141,912	\$ (829,667)	\$ (4,843)	\$39,307,402

Depreciation for the fiscal year ended June 30, 2006 amounted to \$1,333,575. The District determined that it was impractical to allocated depreciation to the various governmental activities as the assets serve multiple functions.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

7. EQUIPMENT AND MAINTENANCE PROJECTS (EMP)

In 1992, Hamilton voters approved 1.00 mills of property tax for equipment and maintenance projects for five years. In 1994, Proposal A included this revenue in the District's foundation grant. The Board of Education has continued to designate a portion of its State School Aid to continue these projects. A subcommittee of the Board of Education services as an EMP Committee to discuss projects with members of the Administrative staff.

For the 2005/06 fiscal year, EMP is not reported separately in these statements, but a portion of the fund balance in the General Fund continues to be designated for EMP purposes. The following information provides detail on EMP activity for the year ended June 30, 2006:

Fund Balance July 1, 2005	\$ 594,330
Revenue designated for EMP	565,313
EMP expenditures	<u>(366,806)</u>
Fund balance June 30, 2006	<u>\$ 792,837</u>

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances of \$2,766 between the general fund and nonmajor funds primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
Interfund Transfers		
General Fund	\$ -	\$443,882
Nonmajor Funds	<u>443,882</u>	<u>-</u>
Total	<u>\$443,882</u>	<u>\$443,882</u>

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT

The following is a summary of debt transactions of the District for the year ended June 30, 2006:

	Long-term Debt				
	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
1998 School Building and Site Refunding Bonds due in amounts ranging from \$420,000 through \$1,775,000 plus interest at 3.00 - 5.50% through 2024	\$18,690,000	\$ -	\$ (1,360,000)	\$ 17,330,000	\$1,575,000
2005 Refunding Bonds due in amounts ranging from \$865,000 through \$1,650,000 plus interest at 3.00 - 5.00% through 2018 (unlimited tax, general obligation)	14,245,000	-	(865,000)	13,380,000	-
1998 Building Improvement Bonds (Durant Settlement) due in amounts ranging from \$10,165 through \$45,918 plus interest at 4.76% through 2013.	128,100	-	(45,918)	82,182	10,165
Severance benefits	783,707	129,690	(68,510)	844,887	-
Total long-term debt	\$ 33,846,807	\$129,690	\$ (2,339,428)	\$31,637,069	\$1,585,165

Following is a summary of future bond and loan principal maturities and interest requirements:

	Principal	Interest
2007	\$ 1,585,165	\$ 1,526,369
2008	1,830,652	1,425,785
2009	2,021,159	1,592,002
2010	1,961,690	1,314,196
2011	2,037,247	1,130,940
2012 – 2016	7,726,269	4,483,391
2017 – 2021	8,305,000	2,619,750
2022 – 2024	5,325,000	532,500
Total	\$30,792,182	\$14,624,933

Retirement/severance benefits are expected to be liquidated by the general and food service funds.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

In prior years, Hamilton Community Schools advance refunded certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The advance refunding resulted in a defeasance of the bonds. As a result, the trust account assets and the liability for the defeased bonds are not included in the Hamilton Community Schools financial statements. At June 30, 2006, \$17,095,000 of bonds outstanding are considered defeased.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the District carried commercial insurance to cover losses related to these risks. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

11. RETIREMENT PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 14.87% and from October through June was 16.43% of covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2006, 2005, and 2004 were \$1,901,896, \$1,669,513, and \$1,446,686, respectively, equal to the required contributions for each year.

HAMILTON COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

12. CONTINGENCIES

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

13. PRIOR PERIOD ADJUSTMENT

As part of the *Durant v. State of Michigan* settlement described in Note 1, the District receives annual payments beginning in 1999 for 10 years. In accordance with generally accepted accounting principles, the future payments should be recorded as deferred revenue and offset with a due from other governmental units receivable. This concept was applied retroactively to the District's financial statements, resulting in an increase in beginning net assets of \$188,253.

* * * * *

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

HAMILTON COMMUNITY SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2006
With Comparative Totals as of June 30, 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$ 7,435,026	\$ 7,846,439
Accounts receivable	-	1,662
Interest receivable	35,257	55,363
Due from other funds	1,266	1,473
Due from other governments	2,874,443	2,813,752
Prepaid items	<u>53,917</u>	<u>87,468</u>
 Total assets	 <u><u>\$ 10,399,909</u></u>	 <u><u>\$ 10,806,157</u></u>
Liabilities		
Accounts payable	\$ 85,902	\$ 75,336
Accrued liabilities		
Severance benefits	87,499	18,968
Payroll	1,211,146	1,487,095
Payroll taxes	92,609	115,290
Fringe benefits	362,322	359,767
Due to other funds	1,500	2,161
Due to other governments	-	62,694
Deferred revenue	<u>40,102</u>	<u>-</u>
 Total liabilities	 <u><u>1,881,080</u></u>	 <u><u>2,121,311</u></u>
Fund balances		
Reserved for:		
Reserved for prepaid items	53,917	-
Reserved for investments in excess of par	-	66,691
Designated for equipment/maintenance	792,837	594,330
Designated for severance benefits	844,887	783,707
Unreserved	<u>6,827,188</u>	<u>7,240,118</u>
 Total fund balances	 <u><u>8,518,829</u></u>	 <u><u>8,684,846</u></u>
 Total liabilities and fund balances	 <u><u>\$ 10,399,909</u></u>	 <u><u>\$ 10,806,157</u></u>

HAMILTON COMMUNITY SCHOOLS

Schedule of Operating Expenditures General Fund

For the Year Ended June 30, 2006

With Comparative Totals for the Year Ended June 30, 2005

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies & Materials</u>	<u>Other Expenses</u>	<u>Capital Outlay</u>	<u>2006</u>	<u>2005</u>
Instruction:								
Basic	\$ 6,803,471	\$3,454,498	\$ 119,549	\$ 342,064	\$ 23,957	\$ -	\$10,743,539	\$10,198,634
Added needs	875,023	400,236	56,928	6,407	27,661	-	1,366,255	1,493,299
Supporting services:								
Pupil services	568,466	272,153	108,562	9,224	340	-	958,745	803,433
Improvement of instruction	396,418	165,717	106,746	81,627	33,621	-	784,129	810,004
Executive administration	148,831	69,926	43,642	6,069	7,059	-	275,527	259,710
School administration	892,473	431,794	22,648	14,780	4,921	-	1,366,616	1,303,357
Other pupil services	175,631	100,217	21,564	7,374	166,220	-	471,006	324,093
Operation and maintenance	687,674	374,619	418,877	780,031	1,280	-	2,262,481	2,353,379
Transportation services	692,932	232,720	89,029	250,112	3,041	-	1,267,834	1,148,085
District support	22,091	13,227	29,103	5,464	2,718	-	72,603	49,322
							-	
Community services	93,729	38,614	1,516	14,010	53,020	-	200,889	148,204
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	436,764	436,764	413,676
Total expenditures	<u>\$11,356,739</u>	<u>\$5,553,721</u>	<u>\$1,018,164</u>	<u>\$1,517,162</u>	<u>\$323,838</u>	<u>\$436,764</u>	<u>\$20,206,388</u>	<u>\$19,305,196</u>

NONMAJOR GOVERNMENTAL FUNDS

HAMILTON COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Building and Site</u>	<u>1998 Durant</u>	<u>Total</u>
Assets					
Cash and investments	\$ 69,837	\$ -	\$ 146,760	\$ 37,404	\$ 254,001
Accounts receivable	-	1,891	-	-	1,891
Interest receivable	-	-	1,153	-	1,153
Due from other funds	-	1,500	-	-	1,500
Due from other governmental units	-	4,139	-	-	4,139
Inventory	-	12,219	-	-	12,219
Prepaid items	1,060	1,468	-	-	2,528
Total assets	<u>\$ 70,897</u>	<u>\$ 21,217</u>	<u>\$ 147,913</u>	<u>\$ 37,404</u>	<u>\$ 277,431</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ -	\$ 146	\$ -	\$ 411	\$ 557
Due to other funds	-	1,266	-	-	1,266
Deferred revenue	-	15,674	-	-	15,674
Total liabilities	-	17,086	-	411	17,497
Fund balances					
Reserved for:					
Inventory	-	10,748	-	-	10,748
Prepaid items	1,060	1,468			2,528
Unreserved:					
Designated for building and site	-	-	147,913	-	147,913
Designated for Durant expenditures	-	-	-	36,993	36,993
Unreserved, undesignated (deficit)	69,837	(8,085)	-	-	61,752
Total fund balances	70,897	4,131	147,913	36,993	259,934
Total liabilities and fund balances	<u>\$ 70,897</u>	<u>\$ 21,217</u>	<u>\$ 147,913</u>	<u>\$ 37,404</u>	<u>\$ 277,431</u>

HAMILTON COMMUNITY SCHOOLS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Athletics</u>	<u>Food Service</u>	<u>Building and Site</u>	<u>1998 Durant</u>	<u>Total</u>
Revenue					
Local sources	\$ 284,996	\$ 558,352	\$ 6,094	\$ 1,325	\$ 850,767
State sources	-	32,908	-	-	32,908
Federal sources	-	161,659	-	-	161,659
Total revenue	<u>284,996</u>	<u>752,919</u>	<u>6,094</u>	<u>1,325</u>	<u>1,045,334</u>
Expenditures					
Current:					
Food service	-	764,513	-	-	764,513
Athletic activities	686,347	-	-	-	686,347
Capital outlay	<u>10,278</u>	<u>682</u>	<u>-</u>	<u>113,327</u>	<u>124,287</u>
Total expenditures	<u>696,625</u>	<u>765,195</u>	<u>-</u>	<u>113,327</u>	<u>1,575,147</u>
Revenue over (under) expenditures	(411,629)	(12,276)	6,094	(112,002)	(529,813)
Other financing sources					
Transfers in	<u>429,382</u>	<u>14,500</u>	<u>-</u>	<u>-</u>	<u>443,882</u>
Net changes in fund balances	17,753	2,224	6,094	(112,002)	(85,931)
Fund balances, beginning of year	<u>53,144</u>	<u>1,907</u>	<u>141,819</u>	<u>148,995</u>	<u>345,865</u>
Fund balances, end of year	<u>\$ 70,897</u>	<u>\$ 4,131</u>	<u>\$ 147,913</u>	<u>\$ 36,993</u>	<u>\$ 259,934</u>

HAMILTON COMMUNITY SCHOOLS
Athletics Fund
Comparative Balance Sheet
June 30, 2006
With Comparative Totals as of June 30, 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$ 69,837	\$ 52,971
Prepaid items	<u>1,060</u>	<u>982</u>
Total assets	<u><u>\$ 70,897</u></u>	<u><u>\$ 53,953</u></u>
Liabilities		
Due to other funds	\$ -	\$ 809
Fund balances		
Reserved for:		
Prepaid items	1,060	-
Unreserved, undesignated	<u>69,837</u>	<u>53,144</u>
Total liabilities and fund balances	<u><u>\$ 70,897</u></u>	<u><u>\$ 53,953</u></u>

HAMILTON COMMUNITY SCHOOLS
Athletics Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Budget			Variance	
	Original	Amended	Actual	With Final Budget	2005 Actual
Revenues					
Local sources:					
Gate receipts	\$ 249,110	\$ 280,760	\$ 282,692	\$ 1,932	\$ 261,637
Interest	530	1,600	1,975	375	887
Miscellaneous revenue	690	10	329	319	693
Total revenues	250,330	282,370	284,996	2,626	263,217
Expenditures					
Supporting services:					
Salaries	280,670	288,230	291,259	3,029	268,654
Employee benefits	78,790	80,090	80,304	214	71,433
Purchased services	107,180	148,940	142,148	(6,792)	110,222
Supplies and materials	174,820	175,750	129,732	(46,018)	151,031
Miscellaneous	51,860	48,010	42,904	(5,106)	39,112
Capital outlay	10,850	10,830	10,278	(552)	8,127
Total expenditures	704,170	751,850	696,625	(55,225)	648,579
Revenue over (under) expenditures	(453,840)	(469,480)	(411,629)	57,851	(385,362)
Other financing sources					
Transfers in	405,550	416,690	429,382	12,692	385,159
Net changes in fund balance	(48,290)	(52,790)	17,753	70,543	(203)
Fund balances, beginning of year	53,144	53,144	53,144	-	53,347
Fund balances, end of year	\$ 4,854	\$ 354	\$ 70,897	\$ 70,543	\$ 53,144

HAMILTON COMMUNITY SCHOOLS

Food Service Fund

Comparative Balance Sheet

June 30, 2006

With Comparative Totals as of June 30, 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$ -	\$ 2,687
Accounts receivable	1,891	1,813
Due from other governmental units	4,139	2,670
Due from other funds	1,500	-
Inventory	12,219	10,720
Prepaid items	1,468	1,483
	<u> </u>	<u> </u>
Total assets	<u>\$ 21,217</u>	<u>\$ 19,373</u>
Liabilities		
Accounts payable	\$ 146	\$ 145
Due to other funds	1,266	664
Deferred revenue	15,674	16,657
	<u> </u>	<u> </u>
Total liabilities	<u>17,086</u>	<u>17,466</u>
Fund balances		
Reserved for:		
Inventory	10,748	10,720
Prepaid items	1,468	-
Unreserved (deficit)	(8,085)	(8,813)
	<u> </u>	<u> </u>
Total fund balances	<u>4,131</u>	<u>1,907</u>
Total liabilities and fund balances	<u>\$ 21,217</u>	<u>\$ 19,373</u>

HAMILTON COMMUNITY SCHOOLS
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Budget			Variance	
	Original	Amended	Actual	With Final Budget	2005 Actual
Revenue					
Local sources:					
Lunch sales	\$ 562,200	\$ 522,700	\$ 546,004	\$ 23,304	\$ 529,446
Miscellaneous revenue	16,000	9,000	11,442	2,442	9,718
Interest	500	600	906	306	859
Total local sources	<u>578,700</u>	<u>532,300</u>	<u>558,352</u>	<u>26,052</u>	<u>540,023</u>
State sources:					
State aid	28,000	29,500	32,908	3,408	4,764
Other	-	-	-	-	2,200
Total state sources	<u>28,000</u>	<u>29,500</u>	<u>32,908</u>	<u>3,408</u>	<u>6,964</u>
Federal sources:					
Federal aid received through the State	126,000	126,000	144,842	18,842	134,503
U.S.D.A. Donated Commodities	17,000	17,000	16,817	(183)	16,892
Total federal sources	<u>143,000</u>	<u>143,000</u>	<u>161,659</u>	<u>18,659</u>	<u>151,395</u>
Total revenue	<u>749,700</u>	<u>704,800</u>	<u>752,919</u>	<u>48,119</u>	<u>698,382</u>
Expenditures					
Supporting services:					
Salaries	254,440	253,350	256,754	3,404	253,144
Employee benefits	86,540	81,520	81,092	(428)	69,729
Purchased services	8,000	11,880	10,757	(1,123)	7,527
Supplies and materials	42,100	47,980	41,886	(6,094)	40,984
Food and milk	345,200	364,710	351,347	(13,363)	341,057
Commodities expense	17,000	18,400	16,817	(1,583)	16,892
Miscellaneous	6,240	5,870	5,860	(10)	5,406
Capital outlay	5,110	690	682	(8)	4,557
Total expenditures	<u>764,630</u>	<u>784,400</u>	<u>765,195</u>	<u>(19,205)</u>	<u>739,296</u>
Revenue over (under) expenditures	(14,930)	(79,600)	(12,276)	67,324	(40,914)
Other financing sources					
Transfers in	<u>25,000</u>	<u>80,000</u>	<u>14,500</u>	<u>(65,500)</u>	<u>40,000</u>
Net changes in fund balances	10,070	400	2,224	1,824	(914)
Fund balances, beginning of year	<u>1,907</u>	<u>1,907</u>	<u>1,907</u>	<u>-</u>	<u>2,821</u>
Fund balances, end of year	<u><u>\$ 11,977</u></u>	<u><u>\$ 2,307</u></u>	<u><u>\$ 4,131</u></u>	<u><u>\$ 1,824</u></u>	<u><u>\$ 1,907</u></u>

HAMILTON COMMUNITY SCHOOLS
Debt Service Fund
Comparative Balance Sheet
June 30, 2006
With Comparative Totals as of June 30, 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and investments	\$ 620,822	\$ 396,598
Due from other governmental units	82,182	-
Interest receivable	<u>3,216</u>	<u>1,250</u>
Total assets	<u><u>\$ 706,220</u></u>	<u><u>\$ 397,848</u></u>
Liabilities		
Deferred revenue	\$ 82,182	\$ -
Fund balances		
Unreserved, undesignated	<u>624,038</u>	<u>397,848</u>
Total liabilities and fund balances	<u><u>\$ 706,220</u></u>	<u><u>\$ 397,848</u></u>

HAMILTON COMMUNITY SCHOOLS
Debt Service Fund
Comparative Statement of Revenue, Expenditures
and Changes in Fund Balances
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Local sources:		
Current property tax levy	\$ 3,958,013	\$ 3,985,740
Interest Income	51,541	49,390
Miscellaneous	<u>157,611</u>	<u>174,044</u>
Total local sources	<u>4,167,165</u>	<u>4,209,174</u>
State aid - restricted	<u>66,446</u>	<u>-</u>
Total revenues	<u>4,233,611</u>	<u>4,209,174</u>
Expenditures		
Debt service:		
Principal	2,270,918	1,175,000
Interest	1,677,405	1,457,761
Paying agent fees	525	700
Taxes abated and written off	<u>58,573</u>	<u>15,235</u>
Total expenditures	<u>4,007,421</u>	<u>2,648,696</u>
Revenue over (under) expenditures	<u>226,190</u>	<u>1,560,478</u>
Other financing sources (uses)		
Refunding bond proceeds	-	14,969,460
Payment to escrow agent	-	(18,429,305)
Issuance costs	<u>-</u>	<u>(168,405)</u>
Total other financing sources (uses)	<u>-</u>	<u>(3,628,250)</u>
Net changes in fund balances	226,190	(2,067,772)
Fund balances - beginning of year	<u>397,848</u>	<u>2,465,620</u>
Fund balances - end of year	<u><u>\$ 624,038</u></u>	<u><u>\$ 397,848</u></u>

HAMILTON COMMUNITY SCHOOLS

Balance Sheet

Capital Projects Funds

June 30, 2006

With Comparative Totals as of June 30, 2005

	Capital Project Funds				
	Building and Site Fund	1998 Durant Fund	Public Improvement Fund	2006	2005
Assets					
Cash and investments	\$ 146,760	\$ 37,404	\$ 1,522,698	\$ 1,706,862	\$ 1,794,205
Interest receivable	1,153	-	15,739	16,892	16,818
Total assets	<u>\$ 147,913</u>	<u>\$ 37,404</u>	<u>\$ 1,538,437</u>	<u>\$ 1,723,754</u>	<u>\$ 1,811,023</u>
Liabilities					
Accounts payable	\$ -	\$ 411	\$ -	\$ 411	\$ -
Fund balances					
Designated for Durant expenditures	-	36,993	-	36,993	148,995
Designated for building and site	<u>147,913</u>	<u>-</u>	<u>1,538,437</u>	<u>1,686,350</u>	<u>1,662,028</u>
Total fund balances	<u>147,913</u>	<u>36,993</u>	<u>1,538,437</u>	<u>1,723,343</u>	<u>1,811,023</u>
Total liabilities and fund balances	<u>\$ 147,913</u>	<u>\$ 37,404</u>	<u>\$ 1,538,437</u>	<u>\$ 1,723,754</u>	<u>\$ 1,811,023</u>

HAMILTON COMMUNITY SCHOOLS
Capital Project Funds
Statement of Revenue, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Capital Project Funds				
	Building and Site Fund	1998 Durant Fund	Public Improvement Fund	2006	2005
Revenue					
Local					
Interest	\$ 6,094	\$ 1,325	\$ 18,228	\$ 25,647	\$ 75,286
Expenditures					
Capital outlay	-	113,327	-	113,327	95,552
Net changes in fund balances	6,094	(112,002)	18,228	(87,680)	(31,335)
Fund balances, beginning of year	141,819	148,995	1,520,209	1,811,023	1,842,358
Fund balances, end of year	\$ 147,913	\$ 36,993	\$ 1,538,437	\$ 1,723,343	\$ 1,811,023

HAMILTON COMMUNITY SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2006

	Student Activities Fund			
	Beginning Balance	Additions	Deletions	Ending Balance
Assets				
Cash and investments	\$ 66,279	\$ 307,692	\$ 302,567	\$ 71,404
Due from other funds	2,161	-	2,161	-
Inventory	9,298	19,541	9,298	19,541
Total Assets	\$ 77,738	\$ 327,233	\$ 314,026	\$ 90,945
Liabilities				
Middle School:				
Age group swim	\$ 9,587	\$ 16,684	\$ 20,615	\$ 5,656
Art club	240	-	-	240
Arts out there	-	5,615	1,567	4,048
Camp/scholarship fund	294	-	185	109
Eighth grade team	1,075	10,877	10,231	1,721
General fundraising	3,881	15,734	12,391	7,224
Library	406	62	98	370
Locker art	386	21	-	407
Miller's club	208	830	578	460
MS drama	975	2,392	3,172	195
Seventh grade team #1	150	7,164	7,314	-
Seventh grade team #2	116	1,690	1,533	273
Sixth grade team #1	246	209	455	-
Sixth grade team #2	206	200	406	-
Ski club	-	5,454	4,950	504
Staff social	84	-	60	24
Student council	5,628	24,701	25,321	5,008
Yearbook	10,838	10,116	20,857	97
High School:				
Advanced math placement	1,005	6,939	6,599	1,345
AP Stratford	(2,021)	9,368	7,510	(163)
Band	916	1,802	1,249	1,469
Byron Bank scholarship	2,000	-	500	1,500
Chorus	(322)	-	198	(520)
Class of 2005	3,248	-	3,000	248
Class of 2006	1,606	3,170	3,765	1,011
Class of 2007	1,876	9,626	8,649	2,853
Class of 2008	1,187	1,405	1,275	1,317
Class of 2009	-	5,247	3,804	1,443
Close-up	2,174	22,956	23,293	1,837
Debate	638	680	1,000	318
Drama	(17,977)	7,544	12,184	(22,617)

(Continued)

HAMILTON COMMUNITY SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Fund (Continued)
For the Year Ended June 30, 2006

	Student Activities Fund			
	Beginning Balance	Additions	Deletions	Ending Balance
Economics	\$ 150	\$ -	\$ 150	\$ -
Fees	224	-	(1)	225
Fellowship of Christian Athletes	308	-	35	273
General fundraising	987	7,401	6,391	1,997
German club	8,281	11,549	5,598	14,232
German exchange program	2,376	227	2,603	-
Hawk's landing	11,650	45,237	41,227	15,660
Homkes scholarship	445	-	-	445
Journalism	-	-	(305)	305
Life skills	(330)	450	1	119
Media center	94	214	82	226
Media communications	90	1,232	314	1,008
National honor society	227	1,504	1,493	238
Parking	393	215	104	504
Spanish club	11,693	8,312	4,296	15,709
Student council	334	5,364	4,644	1,054
Student exchange UK - USA	6,706	48,138	42,849	11,995
Quiz Bowl				946
Yearbook	4,207	33,734	29,750	8,191
Sales tax payable	1,253	12,401	12,213	1,441
Total liabilities	\$ 77,738	\$ 346,464	\$ 334,203	\$ 90,945

(Concluded)

**SCHEDULES OF BONDS ISSUED,
REDEEMED AND OUTSTANDING**

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF BONDS ISSUED, REDEEMED AND OUTSTANDING
1998 SCHOOL BUILDING AND SITE AND REFUNDING BONDS
JUNE 30, 2006

Due	Interest Rate	Bond Principal					Interest Due	
		New Money Portion	Refunding Portion	Total Issued	Refunded/ Redeemed	Outstanding June 30, 2006	May 1	November 1
05/01/1999	3.000 %	\$ 380,000	\$ 40,000	\$ 420,000	\$ 420,000	\$ -	\$ 968,404	\$ 962,504
05/01/2000	3.450	235,000	245,000	480,000	480,000	-	962,504	954,224
05/01/2001	3.700	360,000	285,000	645,000	645,000	-	954,224	942,291
05/01/2002	3.800	475,000	320,000	795,000	795,000	-	942,291	927,186
05/01/2003	3.850	590,000	360,000	950,000	950,000	-	927,186	908,899
05/01/2004	4.000	715,000	395,000	1,110,000	1,110,000	-	908,899	886,699
05/01/2005	4.050	740,000	435,000	1,175,000	1,175,000	-	505,084	481,290
05/01/2006	5.500	880,000	480,000	1,360,000	1,360,000	-	481,290	443,890
05/01/2007	5.500	1,040,000	535,000	1,575,000	-	1,575,000	443,890	400,578
05/01/2008	5.500	1,260,000	560,000	1,820,000	-	1,820,000	400,578	350,528
05/01/2009	5.500	1,420,000	590,000	2,010,000	-	2,010,000	350,528	295,253
05/01/2010	4.500	1,500,000	620,000	2,120,000	1,475,000	645,000	295,253	280,740
05/01/2011	4.600	1,630,000	605,000	2,235,000	1,605,000	630,000	280,740	266,250
05/01/2012	4.850	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2013	4.850	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2014	4.900	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2015	5.125	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2016	5.125	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2017	5.125	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2018	5.125	1,775,000	-	1,775,000	1,775,000	-	266,250	266,250
05/01/2019	5.000	1,775,000	-	1,775,000	-	1,775,000	266,250	221,875
05/01/2020	5.000	1,775,000	-	1,775,000	-	1,775,000	221,875	177,500
05/01/2021	5.000	1,775,000	-	1,775,000	-	1,775,000	177,500	133,125
05/01/2022	5.000	1,775,000	-	1,775,000	-	1,775,000	133,125	88,750
05/01/2023	5.000	1,775,000	-	1,775,000	-	1,775,000	88,750	44,375
05/01/2024	5.000	1,775,000	-	1,775,000	-	1,775,000	44,375	-
Totals		\$34,300,000	\$5,470,000	\$39,770,000	\$ 22,440,000	\$ 17,330,000	\$ 11,216,496	\$ 10,629,707

Date of Issue: November 1, 1998

Purpose: Erecting, furnishing and equipping a new high school; remodeling, refurbishing and re-equipping the existing Junior/Senior High School for middle school purposes and erecting, furnishing and equipping a swimming pool addition; erecting, furnishing and equipping an addition to and partially remodeling, refurbishing and re-equipping the Hamilton Elementary School; developing and improving the playground at Hamilton Elementary, athletic and outdoor physical education fields and sites, and to pay a portion of the costs of issuing the Bonds.

The remaining \$5,470,000 of the Bonds are being issued for the purpose of refunding a portion of the School District's 1994 School Building and Site and Refunding Bonds, dated November 1, 1994, which are due and payable May 1, 2000 through May 1, 2009, and May 1, 2011 (the "Prior Bonds"); and to pay the refunding portion of the costs of issuing the Bonds.

Redemption Prior to Maturity:

The Bonds maturing on May 1, 2013, May 1, 2018, and May 1, 2024 are term bonds subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth in the following table and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date. When Term Bonds are purchased by the School District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Bonds so redeemed or purchased in the order determined by the School District.

	Redemption Dates	Redemption Price
Term Bonds Due May 1, 2013	May 1, 2012 through May 1, 2013	100%
Term Bonds Due May 1, 2018	May 1, 2015 through May 1, 2018	100%
Term Bonds Due May 1, 2024	May 1, 2019 through May 1, 2024	100%

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF BONDS ISSUED, REDEEMED AND OUTSTANDING
2005 REFUNDING BONDS
JUNE 30, 2006

Due	Interest Rate	Bond Principal			Interest Due	
		Issued	Redeemed	Outstanding June 30, 2006	May 1	November 1
05/01/2005	3.000 %	\$ -	\$ -	\$ -	\$ -	\$ 374,672
05/01/2006	3.000	865,000	865,000	-	319,625	306,650
05/01/2007	3.000	-	-	-	306,650	306,650
05/01/2008	3.000	-	-	-	306,650	306,650
05/01/2009	3.000	-	-	-	306,650	306,650
05/01/2010	3.500	1,305,000	-	1,305,000	306,650	283,813
05/01/2011	3.500	1,395,000	-	1,395,000	283,813	259,400
05/01/2012	5.000	1,560,000	-	1,560,000	259,400	220,400
05/01/2013	5.000	1,550,000	-	1,550,000	220,400	181,650
05/01/2014	5.000	1,540,000	-	1,540,000	181,650	143,150
05/01/2015	5.000	1,530,000	-	1,530,000	143,150	104,900
05/01/2016	4.000	1,520,000	-	1,520,000	104,900	74,500
05/01/2017	5.000	1,490,000	-	1,490,000	74,500	37,250
05/01/2018	5.000	1,490,000	-	1,490,000	37,250	-
		\$ 14,245,000	\$ 865,000	\$ 13,380,000	\$ 2,851,288	\$ 2,906,335

Date of Issue: March 30, 2005

Purpose: The bonds are being issued for the purpose of refunding that portion of the School District's outstanding 1998 School Building & Site Bonds, dated November 1, 1998, which are due and payable on May 1, 2010 (\$1,475,000 only), May 1, 2011 (\$1,605,000 only), May 1, 2013, May 1, 2014 and May 1, 2018 and to pay the costs of issuing the bonds.

Redemption Prior to Maturity: The bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2016 are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2015, at par plus accrued interest to the date fixed for redemption.

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF BONDS ISSUED, REDEEMED AND OUTSTANDING
DURANT RESOLUTION PACKAGE BONDS
JUNE 30, 2006

Due	Bond Principal			Outstanding June 30, 2006	Interest
	Principal	Redeemed			
05/15/1999	\$ 20,553	\$ 20,553	\$ -	\$ 4,535	
05/15/2000	16,496	16,496	-	8,568	
05/15/2001	17,275	17,275	-	7,783	
05/15/2002	18,088	18,088	-	6,961	
05/15/2003	-	-	-	-	
05/15/2004	-	-	-	-	
05/15/2005	-	-	-	-	
05/15/2006	45,918	45,918	-	20,528	
05/15/2007	10,165	-	10,165	3,913	
05/15/2008	10,652	-	10,652	3,429	
05/15/2009	11,159	-	11,159	2,922	
05/15/2010	11,690	-	11,690	2,390	
05/15/2011	12,247	-	12,247	1,834	
05/15/2012	12,829	-	12,829	1,251	
05/15/2013	13,440	-	13,440	640	
	\$ 200,512	\$ 118,330	\$ 82,182	\$ 64,754	

Use of these funds is restricted to purposes specified in Section 1351a of the Revised School Code. Permissible uses include: purchasing, erecting, completing, remodeling or equipping school building and other facilities, furnishing school buildings, acquiring or developing sites for school buildings, purchasing school buses, and acquiring, installing or equipping school buildings for technology. Bond proceeds may not be spent for operational purposes. The District elected to receive bond proceeds from the National Bank of Detroit. This created a liability which will be reduced each year with the annual State appropriation made for debt services of the bonds. The District pledged its right to receive these future appropriations as a condition of receiving the bond proceeds.

The bond documentation states specifically that the Series 1998 bonds are not a debt or liability of the State of Michigan. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Should the legislature fail to appropriate debt service in any given year, the District will write off the debt for the fiscal year only.

OTHER INFORMATION

HAMILTON COMMUNITY SCHOOLS

INSURANCE INFORMATION

JUNE 30, 2006

We read the insurance policies purchased by the Board of Education and have summarized the coverage as follows:

Blanket Property - \$2,500 deductible

Buildings, contents and property in the open	\$74,979,295
Buildings – earthquake	3,000,000

Commercial Liability Umbrella - \$10,000 deductible

General liability	5,000,000
Employers' liability	1,000,000/2,000,000
Employee benefits	500,000/500,000
School leaders errors and omissions	1,000,000/3,000,000
Sexual misconduct	1,000,000/1,000,000
Automobile	1,000,000/1,000,000

Automobile - \$250 comprehensive deductible, \$500 collision deductible

General liability	1,000,000
Uninsured motorists	1,000,000
Physical damage – lessor of cash value or cost of repair less deductible	

Employee dishonesty and depository forgery - \$500 deductible

Workers' compensation	100,000
Computer equipment	500,000/500,000/500,000
Software	2,157,787
Musical, athletic and visual aid equipment	300,000
Sports accident medical - \$25,000 deductible	Various limits
	1,000,000



HAMILTON COMMUNITY SCHOOLS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

HAMILTON COMMUNITY SCHOOLS

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

July 28, 2006

Board of Education
Hamilton Community Schools
Hamilton, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hamilton Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the district's basic financial statements, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamilton Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

July 28, 2006

Board of Education
Hamilton Community Schools
Hamilton, Michigan

Compliance

We have audited the compliance of Hamilton Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Hamilton Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hamilton Community Schools' management. Our responsibility is to express an opinion on Hamilton Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hamilton Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hamilton Community Schools' compliance with those requirements.

In our opinion, Hamilton Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Hamilton Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hamilton Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable condition referenced above to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hamilton Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 28, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Hamilton Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



HAMILTON COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2005	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2006
						(Memo Only) Prior Year(s)	Year Ended June 30, 2006	
U.S. Department of Agriculture								
Direct Programs:								
Entitlement Commodities	10.550		\$ 30,775	\$ (1,620)	\$ 14,684	-	\$ 14,950	\$ (1,354)
Bonus Commodities	10.550		1,867	(101)	1,883	-	1,867	(117)
			32,642	(1,721)	16,567	-	16,817	(1,471)
Passed-through Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	051970	413	-	413	-	413	-
National School Lunch - breakfast	10.553	051970	2,831	-	2,831	-	2,831	-
			3,244	-	3,244	-	3,244	-
National S/L Section 4 All Lunches	10.555	051950	5,414	-	5,414	-	5,414	-
National S/L Section 4 All Lunches	10.555	061950	34,280	-	34,280	-	34,280	-
National S/L Section 11 Free & Reduced	10.555	051960	13,952	-	13,952	-	13,952	-
National S/L Section 11 Free & Reduced	10.555	061960	87,952	-	87,952	-	87,952	-
			141,598	-	141,598	-	141,598	-
Total Child Nutrition Cluster			144,842	-	144,842	-	144,842	-
Total U.S. Department of Agriculture			177,484	(1,721)	161,409	-	161,659	(1,471)
U.S. Department of Education								
Passed-through Michigan Department of Education:								
Title 1, Part A	84.010	051530-0405	173,523	83,523	83,523	173,523	-	-
Title 1, Part A	84.010	061530-0506	200,034	-	200,034		200,034	-
			373,557	83,523	283,557	173,523	200,034	-
Handicapped Preschool	84.027	060440/SRSR	4,130	-	-	-	1,113	1,113
Title V	84.298	050250-0405	1,510	1,510	1,510	1,510	-	-
Title V	84.298	050250-0506	1,048	-	1,048	-	1,048	-
			2,558	1,510	2,558	1,510	1,048	-
Technology Literacy Challenge Grant	84.318	050520-0405	4,410	4,410	4,410	4,410	-	-
Technology Literacy Challenge Grant	84.318	060520-0506	3,732	-	3,732	-	3,732	-
			8,142	4,410	8,142	4,410	3,732	-
Improving Teacher Quality	84.367	050520-0405	68,635	28,635	28,635	68,635	-	-
Improving Teacher Quality	84.367	060520-0506	69,423	-	69,423	-	69,423	-
			138,058	28,635	98,058	68,635	69,423	-
IDEA State Initiated Capacity	84.027	050490-0405-CB	4,272	4,272	4,272	4,272	-	-
IDEA State Initiated Transition	84.027	060490-TS	1,494	-	-	-	1,494	1,494
Passed-through Ottawa Area Intermediate School District:								
IDEA PL 94-142 Flow Through	84.027	050450-0405	371,571	185,785	185,785	371,571	-	-
IDEA PL 94-142 Flow Through	84.027	060450-0506	387,236	-	193,618	-	387,236	193,618
			758,807	185,785	379,403	371,571	387,236	193,618

(Continued)

HAMILTON COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2005	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2006
						(Memo Only) Prior Year(s)	Year Ended June 30, 2006	
U.S. Department of Education (Continued)								
Passed-through Ottawa Area Intermediate School District (Continued):								
Preschool Grant	84.173	050460-0405	\$ 12,685	\$ 6,343	\$ 6,343	\$ 12,685	\$ -	\$ -
Preschool Grant	84.173	060460-0506	13,228	-	6,614	-	13,228	6,614
			25,913	6,343	12,957	12,685	13,228	6,614
Safe and Drug Free Schools	84.186	032860-0304	4,801	4,801	4,801	4,801	-	-
Safe and Drug Free Schools	84.186	042860-0405	7,235	1,390	1,390	7,235	-	-
Safe and Drug Free Schools	84.186	052860-0506	7,172	-	5,945	-	7,172	1,227
			19,208	6,191	12,136	12,036	7,172	1,227
Total U.S. Department of Education			1,336,139	320,669	801,083	648,642	684,480	204,066
U.S. Department of Health and Human Services								
Passed-through Michigan Department of Education:								
Medicaid Outreach	93.778		3,231	-	3,231	-	3,231	-
Total Expenditures of Federal Awards			\$ 1,516,854	\$ 318,948	\$ 965,723	\$ 648,642	\$ 849,370	\$ 202,595

(Concluded)

HAMILTON COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2006 basic financial statements agree with federal revenues from the June 30, 2006 Schedule of Expenditures of Federal Awards.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the grants section auditors report (form R7120) in preparing the Schedule of Expenditures of Federal Awards. The cash received on the Schedule of Expenditures of Federal Awards exceeds payments recorded on form R7120 because payments made by the State of Michigan were not received by the District until July 6, 2005. The funds were included as accrued revenue at June 30, 2005 and were excluded from the cash received column on the schedule of expenditures of federal awards in the prior year.

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified on financial statements

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses?

 X yes _____ none reported

Type of auditor’s report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes X no

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

Cluster
84.027
84.173

Special Education Programs
Preschool Grant

Dollar threshold used to distinguish
between Type A and Type B programs:

 \$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

HAMILTON COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2006-1

U.S. Department of Education/Behavior Learning CFDA #84.027 (Major Program)

Internal Control

Finding:

The District did not have IDEA staff complete semi-annual time certifications.

Effect:

The requirement to properly document time spent working on federal programs in accordance with OMB Circular A-87 was not met.

Recommendation/Comment:

When employees spend 100% of their time on a single cost objective (as in this case), the District should prepare and retain a semi-annual certification of this fact, signed by either the individual employees or their immediate supervisor having first hand knowledge of the work performed.

Corrective Action Plan:

The District asserts that all personnel costs charged to this program were allowable, and eligible for federal reimbursement. In the future, the District will prepare and retain semi-annual payroll certifications to document the time spent by its employees on federal programs to ensure compliance with applicable requirements.

Questioned Costs:

No costs were questioned as a result of this finding.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 28, 2006

Board of Education
Hamilton Community Schools
Hamilton, Michigan

In planning and performing our audit of the financial statements of the Hamilton Community Schools for the year ended June 30, 2006, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated July 28, 2006 on the financial statements of the Hamilton Community Schools.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various personnel, and we will be pleased to discuss it in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations.

Our comments are summarized as follows:

STUDENT ACTIVITY ACCOUNTS

During our review of control procedures in place at the middle and high schools for student activity accounts, we identified several areas for improvements.

Invoices processed at the High School do not have invoice numbers entered. Billing information should be entered when transactions are processed to assist in reconciling outstanding invoices to statements and to prevent duplicate payments.

The District has implemented a procedure that requires reimbursement requests to be signed by an appropriate supervisor or authority; however, we noted several disbursements for which there was no signed approval. In order to assure proper use of student activity funds, we recommend that knowledgeable supervisory personnel document their approval of each reimbursement request by signing before it is processed. We also recommend that the Business Manager or other administrator conduct periodic reviews of these procedures.

INDEPENDENT REVIEW OF TRANSACTIONS

During our audit, we noted that certain accounting functions are not routinely reviewed by an independent administrator. For example, bank reconciliations, journal entries, and ACH transfers are only seen by the

employee performing the task. We recommend that the District enhance its internal control by requiring the Business Manager or other administrator to review and initial each of these types of duties in the future.

We would like to thank the staff of the District for their assistance and cooperation during the audit. We look forward to working with you on future engagements.

This information is intended solely for the use of the Board of Education and management of Hamilton Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Rehmann Lohman". The signature is written in a cursive style with a large, prominent 'R' at the beginning.